

CHAPTER 212  
ELEMENTS INCLUDED IN AND EXCLUDED  
FROM A TAXABLE SALE AND SALES PRICE

Rules in this chapter include cross references to provisions in 701—Chapter 26 that were applicable prior to July 1, 2004.

**701—212.1(423) Tax not to be included in price.** When a retailer prices an article for retail sale and displays or advertises the same to the public with that price marked, the price so marked or advertised shall include only the sales price of such article unless it is stated on the price tag that the price includes tax.

EXAMPLE. The advertised or marked price is \$1. When a sale is made, the purchaser pays or agrees to pay \$1.05, which represents the purchase price plus tax, which, when added, becomes a part of the sale price or charge.

This rule does not prohibit advertising or displaying the sale price plus tax or the price including tax, as shown in the following examples:

“This dress—\$10 plus tax”; “This dress—\$10 plus 50 cents tax”; or “This dress—\$10.50 including tax.”

When a retailer conspicuously advertises in such manner and position so that it may be readily seen and read by the public that the price “includes tax,” the retailer will be allowed to determine sales price by dividing the total of such retailer’s price which includes tax by the applicable percentage. For example, a retailer in a jurisdiction that has the state sales tax plus a 1 percent local option tax would use a factor of 106 percent.

However, where an invoice is given to the purchaser as a part of the sale, either the invoice must show the tax separately from the retailer’s price or it must be stated on each invoice that tax is included in the retailer’s price. If the invoice states “tax included,” the seller may determine sales price by the applicable percent method described above. It shall be the responsibility of the retailer that uses or has used the applicable percent method for reporting to provide proof that the retailer has complied with the method of advertising or displaying the retailer’s price, as described above.

This rule is intended to implement Iowa Code sections 423.14 and 423.24.

**701—212.2(423) Finance charge.** Interest or other types of additional charges that result from selling on credit or under installment contracts are not subject to sales tax when such charges are separately stated and when such charges are in addition to an established cash sales price. However, if finance charges are not separately stated and a sale is made for a lump sum amount, the tax is due on the total retailer’s price.

When interest and other types of additional charges are added as a condition of a sale in order to obtain title rather than as a charge to obtain credit where title to goods has previously passed, such charges will be subject to tax even though they may be separately stated. *State ex rel. Turner v. Younker Bros., Inc.*, 210 N.W.2d 550 (Iowa 1973); *Road Machinery Supplies of Minneapolis, Inc. v. The Commissioner of Revenue*, Minnesota Tax Court of Appeals, 1977, 2 Minn. CCH State Tax Reporter II 200-835, 1977 WL 963 (Minn. Tax.). See rule 701—213.3(423) relating to conditional sales contracts.

This rule is intended to implement Iowa Code section 423.1(47) “b”(2).

**701—212.3(423) Retailers' discounts, trade discounts, rebates and coupons.**

**212.3(1) Retailers' discounts.** A retailer's discount reduces the retailer's price of a property or service with the remainder being the actual sales price of the goods charged in the account. The purchaser entitled to the discount will never owe the retailer's price as a debt, the debt being the sales price after the agreed discount has been deducted. The word "discount" means "to buy at a reduction." *Benner Tea Company v. Iowa State Tax Commission*, 252 Iowa 843, 109 N.W.2d 39 (1961).

Any discount a retailer allows that reduces a retailer's price to a sales price is a proper deduction when collecting and reporting tax. This is not the case when the retailer offers a discount to a purchaser but bills and collects tax on the retailer's price rather than on the sales price. The customer must receive the benefit of the discount, for sales tax purposes, in order for the retailer to exclude the discount from the sales price when collecting and reporting tax.

Certain retailers bill their customers on a gross and net basis, with the difference considered to be a discount for payment purposes. When a customer does not resolve the bill within the net payment period, tax shall apply on the gross charge shown on the billing, the gross charge having become the taxable sales price by virtue of the customer's failure to take the action which allows the discount to be taken.

**212.3(2) Rebates.** A "rebate" is a return of part of an amount paid for a product. Manufacturers' rebates are not discounts and cannot be used to reduce the sales price received from a sale or to reduce the purchase price of a product. This subrule applies even though the rebate is used by the retailer to reduce the retailer's price to a sales price or is used by the purchaser as a down payment. The rebate is considered a transaction between the manufacturer and the purchaser. See 1972 O.A.G. 332.

**212.3(3) Coupons.** Coupons issued by the producer of a product are not discounts and cannot be used as an abatement from the retailer's price of the product. Coupons issued by the retailer which actually reduce the price of the product to the purchaser are treated as a discount as provided in subrule 212.3(1). *Saxon-Western Corporation v. Mahin*, 369 N.E.2d 1185 (Ill. 1979).

EXAMPLE 1. C acquires a 30¢ off coupon issued by manufacturer of A-B Band-aids for A-B Band-aids. The coupon can be redeemed at a store which sells the product. C goes to store D and purchases a box of A-B Band-aids which shows a price of \$1.50. C pays \$1.20 plus the 30¢ coupon. D is reimbursed the 30¢ for the coupon by the manufacturer. Tax is due on the \$1.50 because D's total sales price is \$1.50. The coupon is not used as a discount in this situation.

EXAMPLE 2. E offers a two-for-the-price-of-one coupon for its super hamburger. Each hamburger normally sells for \$2. The coupon can only be redeemed at E's retail store. F acquires the coupon and redeems it at E's store. The purchase price for F was \$2 for both hamburgers. The tax is due on the \$2 because this amount is the sales price for E, even though the value of the two hamburgers would normally be \$4. In this situation, the sales price for the two hamburgers is \$2.

**212.3(4) Trade discounts.** A "trade discount" is a discount from a seller's list price which is offered to a class or category of customer, e.g., retailers or wholesalers. Trade discounts given or allowed by manufacturers, distributors, or wholesalers to retailers or by manufacturers or distributors to wholesalers and payments made by manufacturers, distributors, or wholesalers directly to retailers or by manufacturers or distributors to wholesalers to reduce the sales price of a manufacturer's, distributor's, or wholesaler's product (e.g., cigarettes) or to promote the sale or recognition of the manufacturer's, distributor's, or wholesaler's product are not to be included in any taxable sales price. This subrule does not apply to coupons issued by manufacturers, distributors, or wholesalers to consumers; see subrule 212.3(3).

This rule is intended to implement Iowa Code section 423.1(47) "b"(1).

**701—212.4(423) Excise tax included in and excluded from sales price.**

**212.4(1)** An excise tax which is not an Iowa sales or use tax may be excluded from the sales price or purchase price of the sale or use of property or taxable services only if all of the following conditions exist:

*a.* The excise tax is imposed upon the identical sales price on which the Iowa sales tax is imposed or upon the purchase price which measures the amount of taxable use or upon a use identical to the Iowa taxable use and not upon some event or activity which precedes or occurs after the sale or use.

*b.* The legal incidence of the excise tax falls upon the purchaser who is also responsible for payment of the Iowa sales tax. The purchaser must be obligated to pay the excise tax either directly to the government in question or to another person (e.g., the retailer) who acts as a collector of the tax. See *Gurley v. Rhoden*, 421 U.S. 200, 95 S. Ct. 1605, 44 L.Ed.2d 110 (1975) for a description of the circumstances under which the legal, as opposed to the economic, burden of an excise tax falls upon the purchaser.

*c.* The name of the excise tax is specifically stated, and the amount of the excise tax is separately set out on the invoice, bill of sale, or another document which embodies a record of the sale.

**EXAMPLE 1.** The federal government imposes an excise tax upon the act of manufacturing tangible personal property within the United States. The amount of the tax is measured as a percentage of the price for the first sale of the property, which is usually to a wholesaler. However, one particular manufacturer sells its manufactured goods at retail in Iowa. Even if this tax meets the requirements for exclusion of paragraphs “*b*” and “*c*” above, it is not excludable because it does not meet the requirements of paragraph “*a*.” The tax is not imposed upon the act of selling but upon the prior act of manufacturing. The tax is merely measured by the amount of the proceeds of the sale.

**EXAMPLE 2.** The federal government imposes an excise tax of 4 percent on a retailer’s sales price from sales of tangible personal property. The law allows the retailer to separately identify and bill a customer for the tax. However, if a retailer fails to pay the tax, the government cannot collect it from a purchaser, and if the government assesses tax against the retailer and secures a judgment requiring the retailer to pay the tax, the retailer that has failed to collect the tax from a purchaser on the initial sale has no right of reimbursement from the purchaser. This tax is not excludable from Iowa excise tax. Its economic burden falls upon the purchaser. However, since neither the government nor the retailer has any legal right to demand payment of the tax from a purchaser, the legal incidence of the tax is not upon the purchaser; and the tax would not meet the requirements of paragraph “*b*” above.

**212.4(2)** The following federal excise taxes are to be included in the sales price upon which Iowa sales tax is to be paid for purposes of collecting Iowa sales tax:

*a.* The federal gallonage taxes imposed by 26 U.S.C. Sections 5001, 5041, and 5051 on distilled spirits, wines, and beer.

*b.* The tax imposed by 26 U.S.C. Section 5701 with regard to cigars, cigarettes, cigarette papers and tubes, smokeless tobacco, and pipe tobacco.

*c.* The federal tax imposed under 26 U.S.C. Section 4081 on gasoline.

*d.* The federal tax imposed by 26 U.S.C. Section 4071 which expires October 1, 2005, on tires.

**212.4(3)** The following excise taxes are excluded from the amount of the sales price:

*a.* The federal tax imposed by 26 U.S.C. Section 4251(a) on the communication services of local telephone service, toll telephone service, and teletypewriter exchange service.

*b.* The federal tax imposed by 26 U.S.C. Section 4051 upon the first retail sale of automobile and truck chassis and bodies; truck trailer and semitrailer chassis and bodies and tractors of the kind chiefly used for highway transportation in combination with trailers or semitrailers.

This rule is intended to implement Iowa Code section 423.1(47) “*b*”(3).

**701—212.5(423) Trade-ins.**

**212.5(1)** Trade-ins. When tangible personal property is traded toward the purchase price of other tangible personal property, the sales price shall be only that portion of the purchase price which is payable in money to the retailer if the following conditions are met:

- a. The tangible personal property is traded to a retailer, and the property traded is the type normally sold in the regular course of the retailer's business; and
- b. The tangible personal property traded to a retailer is intended by the retailer to be ultimately sold at retail; or
- c. The tangible personal property traded to a retailer is intended to be used by the retailer or another in the remanufacturing of a like item.

EXAMPLE 1. A owns a car valued at \$5,000. A trades his used car to XY car dealer for a used car valued at \$12,000. XY car dealer normally sells used cars. Use tax would be due on the \$7,000 in money which A paid to XY car dealer, as both conditions "a" and "b" have been met.

EXAMPLE 2. John Doe has a pickup truck with a value of \$2,000. John wants a boat, so he offers to trade his \$2,000 pickup to ABC boat dealer for the purchase of a boat valued at \$5,000. ABC boat dealer is a new and used boat dealer. ABC boat dealer agrees to accept the \$2,000 pickup and \$3,000 cash in trade for the boat. In this example, the tax would be computed on \$5,000. The trade-in provision would not apply because condition "a" has not been met. The property traded is not the type of property normally sold by ABC boat dealer in the regular course of the boat dealer's business.

EXAMPLE 3. ABC Corporation trades 500 bushels of corn and \$500 cash to the local cooperative elevator for the purchase of various hand tools. In its regular course of business, the local cooperative elevator sells grain for processing into bread. The trade-in provision in this example would not apply because condition "b" has not been met. When ultimately sold by the cooperative elevator, the grain traded toward the purchase price of the hand tools is sold for processing and not at retail.

EXAMPLE 4. Hometown Appliance store is in the business of selling stoves, refrigerators, and other various appliances in Iowa. Hometown Appliance has a refrigerator valued at \$650. Customer A wishes to trade a used refrigerator toward the purchase price of the new refrigerator. Hometown Appliance agrees to accept A's used refrigerator at a value of \$150 toward the purchase price of the new refrigerator. A pays Hometown Appliance \$500 in cash. The trade-in provision applies as both conditions "a" and "b" have been met, and tax would be due on the \$500.

Several months later, Hometown Appliance sells the used refrigerator it received from customer A to the local school district, which is exempt from sales tax on its purchase. The trade-in provision on the original transaction is still applicable because both conditions "a" and "b" were met. The sale is "at retail," even if the sales price is exempt from tax.

EXAMPLE 5. ABC Auto Supply is in the business of selling various types of automobile and farm implement supplies. The normal selling price for a car generator is \$80. ABC Auto Supply allows a \$20 trade-in credit to any customer who wishes to trade in an unworkable generator. At the time ABC Auto Supply accepts the unusable generator, it knows that the generator will not be sold at retail; however, ABC Auto Supply also knows that the generator will be sold to XYZ Company, which is in the business of rebuilding generators by using existing parts plus new parts. In this example, the trade-in provision would apply since conditions "a" and "c" have been met.

**212.5(2)** All the provisions of subrule 212.5(1) apply to the trade-in of vehicles subject to registration when the trade involves retailers of vehicles.

When vehicles subject to registration are traded among persons who are not retailers of vehicles subject to registration, the conditions set forth in 212.5(1) need not be met. The purchase price is only that portion of the purchase price represented by the difference between the total purchase price of the vehicle subject to registration acquired and the value of the vehicle subject to registration traded.

This rule applies only when a vehicle is traded for tangible personal property, regardless of whether the transaction is between a retailer and a nonretailer or between two nonretailers. The vehicle traded in must be owned by the person(s) trading in the vehicle. It is presumed that the name or names indicated on the title of the vehicle dictate ownership of the vehicle as set forth in Iowa Code chapter 321.

EXAMPLE 1. John Doe has an automobile with a value of \$2,000. John and his neighbor Bill Jones, who has an automobile valued at \$3,500, decide to trade automobiles. John pays Bill \$1,500 cash. Vehicles subject to registration are subject to use tax, which is payable to the county treasurer at the time of registration. In this example, John would owe use tax on \$1,500 since this is the amount John paid Bill and tax is only due on the cash difference. Bill would not owe any use tax on the vehicle acquired through the trade.

EXAMPLE 2. Joe has a Ford automobile with a value of \$5,000. Joe and his friend Jim, who has a Chevrolet automobile also valued at \$5,000, decide to trade automobiles. Joe and Jim make an even trade, automobile for automobile, with no money changing hands. In this example, there is no tax due on either automobile because there is no exchange of money.

**212.5(3)** Trade for services. The trade-in provisions referenced in Iowa Code section 423.1(47) “a”(7) and found in Iowa Code section 423.3(59) do not apply to taxable enumerated services. When taxable enumerated services are traded, the sales price would be determined based on the value of the service or other consideration.

EXAMPLE. A and B agree that A will purchase a car which B now owns. The two parties agree on a purchase price of \$9,000. In return for transfer of title from B, A agrees to pay B \$7,000 in cash and to paint B’s house with paint provided by B. A and B agree that the value of B’s house painting services is \$2,000. House painting is a taxable enumerated service; reference rule 701—26.34(422). Since the trade-in provisions are not applicable to the value of taxable enumerated services, the purchase price of the car is \$9,000 and not \$7,000.

**212.5(4)** Three-way trade-in transactions. In a three-way transaction, the agreement provides that a lessee sell to a third-party dealer a vehicle (or other tangible personal property) which the lessee owns. The lessor then purchases another vehicle from the third-party dealer at a reduced price and leases the vehicle to the lessee. The difference between the reduced sale price and retail price of the vehicle is not allowed as a trade-in on the vehicle for use tax purposes.

EXAMPLE. A enters into a three-way agreement with B, the lessor. Under the terms of the contract, A sells a 2005 Ford Taurus owned by A to C, a used car dealer. The retail price for the Ford Taurus is \$30,000. C then sells the Ford Taurus to B for the reduced price of \$25,000. B then leases the Ford Taurus to A for a period of 12 months. The \$5,000 difference between the reduced sale price and the retail price of the vehicle is not allowed as a trade-in on the sale of the vehicle for use tax purposes. See also *Reynolds Motor Co. et al. v. Iowa Dep’t. of Revenue*, Equity 72050, Dist. Ct. of Scott Cty., Iowa, August 28, 1987.

This rule is intended to implement Iowa Code sections 423.1(47) “a”(7) and 423.3(59).

**701—212.6(423) Installation charges when tangible personal property is sold at retail.** When the sale of tangible personal property includes a charge for installation of the personal property sold, the current rate of tax shall be measured on the entire sales price from the sale. The installation charges would not be taxable if the installation service is not an enumerated service, and where a sales agreement exists, the installation charges are separately contracted. If the written contract contains no provisions separately itemizing such charges, tax is due on the full contract price with no deduction for installation charges, whether or not such installation charges are itemized separately on the invoice.

If the installation services are enumerated services, the installation charges would not be taxable if (1) the services are exempt from tax (e.g., the services are performed on or connected with new construction, reconstruction, alteration, expansion or remodeling of a building or structure); or the services are rendered in connection with the installation of new industrial machinery or equipment, and (2) where a sales agreement exists, the installation charges are separately contracted. If the written contract contains no provisions separately itemizing such charges, tax is due on the full contract price with no deduction for installation charges, whether or not such installation charges are itemized separately on the invoice. If no written contract exists, the installation charges must be separately itemized on the invoice to be exempt from tax. See rule 701—219.13(423).

This rule is intended to implement Iowa Code sections 423.1(47)“a”(5) and 423.1(47)“b”(4).

**701—212.7(423) Service charge and gratuity.** When the purchase of any food, beverage or meal automatically and invariably results in the inclusion of a mandatory service charge to the total price for such food, beverage or meal, the amounts so included shall be subject to tax. The term “service charge” means either a fixed percentage of the total price of or a charge for food, a beverage or a meal.

The mandatory service charge shall be considered: (1) a required part of a transaction arising from a taxable sale and a contractual obligation of a purchaser to pay to a vendor a charge arising directly from and as a condition of the making of the sale and (2) a fixed labor cost included in the price for food, a beverage or a meal even though such charge is separately stated from the charge for the food, beverage or meal.

When a gratuity is voluntarily given for food, a beverage or a meal, it shall be considered a tip and not subject to tax. *Cohen v. Playboy Club International, Inc.*, 19 Ill. App. 3d 215, 311 N.E.2d 336; *Baltimore Country Club, Inc. v. Comptroller of Treasury*, 272 Md. 65, 321 A.2d 308.

This rule is intended to implement Iowa Code sections 423.1(47) and 423.2(1).

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